

SUMMARY:

Described is the Authority's policy regarding the management fees paid to all management agents managing Authority-financed, non-HUD insured housing developments.

MANAGEMENT FEES:

PURPOSE - Authority-approved management fees are paid to compensate management agents for services performed under the Authority-approved Management Agreement. The management fee compensates the management agent for the services necessary to manage, operate and maintain the development on a day-to-day basis in accordance with sound property management practices. These services include, but are not limited to:

- Designing and supervising the procedures and systems needed to effectively operate the development;
- Recruiting, hiring, training and supervising staff;
- Monitoring development operations and analyzing problems; and
- Providing reports on development operations.

NOTE: **Management agents may also negotiate a premium management fee with the development's owner(s) based on compliance with the Authority's "Premium Management Fee Guidelines".**

The Authority-approved management fee **and the premium management fee** are the sole compensation that a management agent is entitled to receive from development operations.

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CALCULATION OF MANAGEMENT FEE - The Authority reviews the management fees annually to determine if they should be adjusted. Management fee adjustments are calculated as follows:

- Obtain the Midwest Consumers Price Index inflation rate percentage (including shelter) from the Washington Regional Office of the Consumers Price Index.
- Apply the Consumers Price Index inflation rate percentage to the previous year's management fee to determine the management fee increase.

EFFECTIVE DATE OF PAYMENT OF MANAGEMENT FEES - The effective date of payment of management fees is **determined through the yearly budget process. The management fee approved by the owner and the Asset Managers in the annual budget will be the maximum fee that can be paid to the management agent. The new management fee is effective with the first month of the new budget year.**

PAYMENT OF MANAGEMENT FEES - The management fee is a per unit, per year amount payable in twelve (12) equal monthly payments on the first day of each month. Management fees **cannot be paid or accrued until the effective date in the "Term of Agreement" section of the Authority-approved initial Management Agreement.**

Unpaid management fees must be reported on Schedule B of the Monthly Income & Expenditure Report.

PRIORITY OF PAYMENT - As outlined in the Management Agreement, management fees must be paid **after** mortgage/escrow payments and all development undisputed, non-identity of interest vendor payables.



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Management Fees can be paid as follows:

Identity of Interest Management Agent:

Management fees cannot be paid to an Identity of Interest management agent when there are non-Identity of Interest accounts payables over 90 days, unless an "Accounts Payable Action Plan" is approved by the Authority.

An "Accounts Payable Action Plan" must contain all of the following items:

- **A schedule listing the outstanding accounts payable at the time of the request;**
- **A payment plan evidencing pay-off of all outstanding payables with an estimated pay-off date;**
- **Evidence of owner contributions including but not limited to:**
 - a) **Cash contribution;**
 - b) **Operating Assurance Escrow;**
 - c) **Pledge of LD Payment; or**
 - d) **Documentation of any vendor discounts for early pay-off.**

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Approval of an approved "Accounts Payable Action Plan" can be revoked at any time by the Authority, if the Authority determines the following:

- The owner or management agent have failed to meet their obligation under the "Action Plan; or**
- The development continues to experience problems with non-vendor accounts payable that may result in liens filed against the development.**

If there are vendor payables over **90** days during a month and management fees have been paid, the management agent must submit the following items with the MIE:

- Cover letter providing detailed explanation as to why the management fees were paid prior to vendor payables over 60 days; and**
- A copy of the vendor invoice.**

The explanation will be reviewed on a case-by-case basis by the assigned Asset Manager. Based on the review, the management fee may be required to be repaid or a warning letter may be issued.

Non-Identity of Interest Management Agent: Management fees may be paid to a non-identity of interest management agent as an ordinary account payable.

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**VIOLATIONS OF
MANAGEMENT FEE
POLICY:**

The following steps will be taken if disallowed expenses are paid from a development’s operating account:

- **Notification of Violation:** A notification of violation letter will be sent to the management agent by the assigned AM. The letter will advise the management agent of the violation. The management agent will have 30 days to reimburse the development’s operating account for the disallowed expense and provide the Authority with verification of the reimbursement.
- **Warning Letter:** If the management agent does not satisfactorily respond to the notification of violation, the Asset Management Division’s Financial Analyst will send a warning letter. The warning letter will notify the management agent that a material default will be declared in 30 days if the violation is not corrected. A material default will result in the loss of the Premium Management Fee and possible further action by the Authority.
- **Material Default:** If the violation is not corrected within 30 days of the warning letter, the Asset Management Division’s Financial Analyst will issue a material default letter to the management agent and the owner. This letter will be sent by certified mail. A copy of the material default letter will also be sent to the Authority’s Intake Officer. The management agent will have 30 days from the receipt of the material default notice to cure the default.

The Authority reserves the right to withhold or suspend management fees, if a material default has not been corrected within the Authority-approved time frame. This process is outlined in the Management Agreement.

**CENTRAL OFFICE
EMPLOYEES (COE):**

A Central Office Employee (COE) is defined as an employee who receives a portion of their wages and/or benefits from the management fee.

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A Split-Site Employee is an employee whose entire salary/benefits are reimbursed from more than one development **but not more than three developments**, and the employee does not receive any salary/benefits from the management fee.

NOTE: A split-site employee whose salary is reimbursed from more than three developments is also considered a COE.

All central office employee **functions** must be paid from the management fee. However, some central office employee costs may be charged to the development's operating account, **if it results in a cost savings to the development.**

**REQUIRED CONDITIONS
TO CHARGE COE COSTS
TO DEVELOPMENT'S**

OPERATING ACCT. :

Listed below are the conditions that must be met to ensure Authority approval of COE costs charged to the development's operating account:

- **All COE expenses meet the requirements of the Management Fee Policy.**
- The billing rate for central office employee services cannot exceed the actual compensation rate paid to the central office employees for central office duties. The billing rate for the services can only include the following items:
 - Salary;
 - Fringe benefits (**i.e. health insurance, pension plans, etc.**);
 - Employer payroll taxes; and
 - Worker's Compensation.

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- Reimbursement for travel expenses for central office employees must be based on the actual mileage from the central office/home base to the development and return. The mileage rate for travel cannot exceed the standard mileage rate published by the IRS.
- Central office employees used to temporarily replace on-site staff must be charged at the lesser salary rate of the central office employee or the on-site staff person.

NOTE: All COE expenses must be recorded in MIE Line Item 4b - Premium Management Fee.

YEAR-END COE SUMMARY FORM:

If a management agent charges central office employee costs to a development's operating account, the management agent must submit a year-end statement (Attachment A) to the Authority that summaries the COE expenses charged to each development's operating account.

The form provides the Authority with permission to audit the management agent's records to verify the validity of any COE costs.

COSTS PAID FROM MANAGEMENT FEES:

The following costs must be paid from the management fee:

- **Central Office Employees** - The salaries, fringe benefits, recruiting, hiring and training costs for the following employees:

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- Executive management staff that serve as overall policy and decision-making authorities;
 - Accountants, bookkeeping staff, clerical staff and contractual employees;
 - Property management staff who monitor the development operations by visiting the development, supervising, analyzing and evaluating staff performance by reviewing resident files, office procedures and physical inspections for compliance with company standards and federal/state requirements; and
 - Employer payroll taxes and pension plans for central office staff, as well as the cost of auditing the pension plans and the cost of unemployment tax audits.
- **Central Office Duties/Responsibilities & Contractual Services** - All costs associated with the following items:
- Cost of recruiting, selecting, testing, hiring, initial/ongoing training and supervising of central office employees, including any contractual services related to the above;
 - The cost of recruiting, selecting, testing, hiring, initial training and supervision of on-site staff, including any contractual services related to the above;
 - The costs of ensuring the development is staffed during normal business hours;
 - The cost of training central office and on-site staff on management agent policies and procedures;
 - The cost of training development staff for skills not directly related to job performance;
 - Cost of updating employee manuals, forms, policies and procedures and cost of resident file audits;



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- Telephone charges, cellular phones and pagers, travel to the development, meals, entertainment and hotel rooms of supervisory and central office staff, including those temporarily assigned to a development;
- All central office and site employee perks, i.e. gifts, parties, flowers, club memberships (unless the items are disclosed and approved by the Authority as part of the development's on-site payroll line item);
- Cost of calculating security deposit interest and processing resident security deposit refund checks;
- Costs associated with preparing and processing checks;
- Cost of using consultants or technical experts to provide advice or make recommendations to the management agent in carrying out their responsibilities regarding advice on financial investment, insurance coverage, pension planning, marketing or product research;
- Costs of preparing Utility Allowance information and grant applications;
- Cost of correspondence regarding physical inspections, annual certified audit, budget, resident complaints and general correspondence from central office staff;
- Cost of completing applications for new vendors;
- Cost of bid negotiation, issuance and oversight of purchase orders and contracts unless approved in advance by the Authority in writing;
- All association/membership dues or fees for central office employees and all political contributions; and
- Management agent's office building costs.
- **Accounting & Bookkeeping Costs** - Establishment and operation of an accounting/bookkeeping system and internal management control procedures. All costs associated with preparation and processing of the following items:



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- Payroll, including check disbursements and any associated processing fees;
- MIE and any other special financial reports; processing of invoices including check disbursements and resolution of invoice discrepancies;
- Maintenance of subsidiary ledgers for accounts receivable/payable; bank reconciliations; monthly journal entry preparation; general ledger review and analysis;
- Initial and on-going training of central office and on-site staff on accounting systems and accounting software.
- Development budgets, including rent increases and utility allowance requests;
- Annual Certified Audit and Pre-Closing Audit work papers; and
- Reserve and escrow draws.
- **Computer-Related Costs** - Central office computer hardware and software, maintenance, computer technician/support and training costs.
- **Penalties, Loss of Income & Lawsuit Damages** - All penalties and loss of income resulting from management agent's performance, including lawsuit damages; e.g.
 - Damages relating to employee **or resident** discrimination **not covered by insurance policy;**
 - All losses of rental income, increases in operating expenses or financial deficits resulting from the management agent's failure to perform any and all of the duties necessary to the proper management and marketing of the development; and
 - Penalties and late charges as outlined in the management agreement.



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NOTE: Structuring of mortgage modifications, workouts and sale transactions cannot be paid from the development's operating account. These costs are generally considered an expense to the owner.

COSTS PAID FROM DEVELOPMENT'S OPERATING ACCOUNT:

The following costs can be paid from the development's operating account:

- **On-Site Staff** - All costs associated with the following items:
 - Salaries, fringe benefits and commissions, advertising, background/criminal and credit checks for on-site staff; e.g. administrative, maintenance, janitorial, marketing, security and on-site contractual employees; and
 - Employer payroll taxes and Authority-approved pension plans for on-site staff, as well as the cost of auditing the pension plans and the cost of unemployment tax audits.
- **On-Site Staff Duties/Responsibilities** - All costs associated with the following items:
 - Preparation of subsidy billings, including special claims and Excess Income Reports;
 - Preparation and processing of resident applications, certifications and worksheets;
 - Collection and deposit of rent, bad debt collection, other resident charges and processing of inventory checklists; and
 - Processing Notices to Quit and Lease termination notices.

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- **Costs of oversight and monitoring of program compliance, i.e. subsidy/Tax Credit compliance;**

- **Computer-Related Costs** - Development computer hardware and software and computer maintenance costs.
- **Other Eligible Development Expenses** - All costs associated with the following items:
 - Cost of on-going and specialized training courses relating to TRACS, Tax Credits, ADA, Fair Housing and HUD/ MSHDA-approved programs for on-site employees (**do not include the cost of training COEs' in specialized training courses**);
 - Employee or resident discrimination insurance premiums and Worker's Compensation costs;
 - Travel expenses incurred by on-site development staff in performing development-related responsibilities;
 - Miscellaneous development office expenses, i.e. envelopes, postage, copy paper, computer supplies and development checks, record storage;
 - Cost of day-to-day development operations; e.g. advertising, on-site telephone and Internet charges, legal expenses, utilities, general building and grounds maintenance including contracts;
 - Cost of using consultants or technical experts to provide advice or make recommendations in highly technical areas such as the correction of structural/engineering problems or health/safety issues;



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- Cost of using a consultant to evaluate site staff marketing skills and performance;
- Cost of State-Certified Appraiser to perform Market Rent Comparisons for Section 8 rent increases;
- Allowable fees; e.g. management fees, Premium Management Fees, Annual Certified Audit fees, Tax Credit monitoring fees, Trustee Bond Fees (**NOTE: Tax Credit Cost Certification Audit Fees and Mortgagors' and Contractors' Cost Certification Fees cannot be paid from the development's operating account**);
- Debt service, real property taxes/PILOT and assessments, hazard, liability, umbrella, boiler insurance premiums, fidelity bond premiums, development vehicle and equipment insurance premiums, Replacement Reserve escrow payments and any other escrows or reserves required by the Regulatory Agreement;
- Other development taxes; e.g. Single Business Tax;
- Allowable Distributions;
- Interest expenses for the repayment of MSHDA-approved loans and/or owner advances;
- Comprehensive Needs Assessment costs;
- Bank card fees so residents may pay rent with a credit card; and
- **Directors' and Officers Insurance Policy for non-profit owned developments.**



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MANAGEMENT FEE POLICY**PROCEDURES FOR SUBMITTING COE SUMMARY FORM**

Management Agent 1. Complete a COE Form (Attachment A) for each central office employee the management agent charged to a development's operating account during the past year.

2. Sign the COE Form(s).

3. Obtain the owner's signature on the COE Form(s).

4. Mail the COE Form(s) to the Director of the Office of Asset Management in Lansing by February 1, 2007 for 2006.

COE Logkeeper 5. Log each COE Form submitted by the management agents.

6. Forward COE Forms to the Management Fee Committee for review.

Mgmt. Fee Comm. 7. Review COE Summary Forms. If any COE charges are in violation of the Management Fee Policy, disapprove the item and require the management agent to reimburse the

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development's operating account.

NOTE: MSHDA staff may review the management agent's records to verify COE charges.

7A. Forward disapproved COE Form to the management agent and the Asset Manager (AM).

Management Agent 8. Reimburse development's operating account for the disallowed expenditures and provide proof of reimbursement to the Asset Manager. At a minimum, a copy of the deposit ticket (development's operating account) that was processed by the bank must be submitted as proof.

8A. If the management agents wants to appeal the decision, send the appeal in writing to the Director of Asset Management by the date identified in the disapproval letter.

Director, Asset Management

8B. Review management agent's written appeal and make decision to uphold the appeal or approve the COE expense.



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8C. Notify the management agent in writing of appeal decision.

AM

9. Review the Annual Certified Audit for compliance with COE requirements.



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ATTACHMENT A

Michigan State Housing Development Authority
735 E. Michigan Avenue
Lansing, MI 48912

**2006 SUMMARY OF MANAGEMENT AGENT
CENTRAL OFFICE EMPLOYEE COSTS CHARGED TO A
DEVELOPMENT'S OPERATING ACCOUNT**

NOTE: THIS FORM CANNOT BE MODIFIED

DATE: _____ BUDGET YEAR: _____

MANAGEMENT AGENT: _____

POSITION TITLE: _____

COE EMPLOYEE NAME: _____

NOTE: An employee whose salary is reimbursed from more than three developments is also considered a COE.

MSHDA COE Letters should be mailed to:

Contact Name:	
Management Co.:	
Address:	
Telephone #:	
E-Mail Address:	

Detailed Description of Job Duties Charged to Development's Operating Account: _____

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POSITION TITLE: _____

COE EMPLOYEE NAME: _____

Hourly Billing Rate:** \$ _____ (The billing rate must include any salary, fringe benefit, employer payroll tax and Worker’s Compensation costs).

- **All** COE expenses must be recorded on Line Item 4b of the MIE Report (salaries, mileage, fringe benefits, employer payroll taxes & Worker’s Compensation).
- **Central office employees used to temporarily replace on-site staff must be charged the lesser salary rate of the central office employee or the on-site staff person.**

Mileage Reimbursement Rate for Travel: _____ ¢ (Cannot exceed the current standard mileage rate published by the IRS. The **2005** mileage rate is **40.5** cents per mile).

	Development(s):	Actual # Hours Billed During Yr.	Subtotal	# of Miles Billed During Year	Subtotal	Total Expenses (hrs x billing rate + mileage_x mileage rate)
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						

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POSITION TITLE: _____

COE EMPLOYEE NAME: _____

****Multiple Billing Rates:**

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

11	
12	
13	
14	
15	
16	
17	

MANAGEMENT AGENT CERTIFICATION:

I CERTIFY THE FOLLOWING TO BE TRUE:

- ALL INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT;
- ALL DUTIES LISTED IN THIS SUMMARY WERE PROVIDED TO THE DEVELOPMENT;
- THE USE OF CENTRAL OFFICE EMPLOYEES RESULTED IN A COST SAVINGS TO THE DEVELOPMENT.

I UNDERSTAND THAT, IF REQUIRED, WE MUST ALLOW MSHDA STAFF TO REVIEW OUR RECORDS TO VERIFY COE CHARGES.

Name

Title

Management Company

Date



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POSITION TITLE: _____

COE EMPLOYEE NAME: _____

OWNER CERTIFICATION:

I CERTIFY THAT THE CENTRAL OFFICE EMPLOYEE (COE) CHARGES LISTED IN THIS DOCUMENT ARE ACCEPTABLE TO ME. I UNDERSTAND THAT THE CENTRAL OFFICE EMPLOYEES USED TO PERFORM DEVELOPMENT-RELATED DUTIES ARE EMPLOYEES OF THE MANAGEMENT COMPANY.

Owner Name

Title

Date

MSHDA DISAPPROVAL OF COE COSTS:

_____ Disapproved: Reason _____

Amount to be Reimbursed: \$ _____

Date: _____

Donna McMillan, Director
Office of Asset Management

cc: Management Agent
AM

MSHDA Form No. 307
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DATE

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COE FORM ("ATTACHMENT A") INSTRUCTIONS

1. Use tab key to move to input locations. Enter information where applicable.
2. Enter the Hourly Billing Rate. If the form is being submitted for one COE position but using multiple billing rates, 1) Type "0", 2) Press "Enter", and 3) Press the "GO TO" button. The screen will take you to a table at the bottom of the page. Enter the individual billing rates that correspond to the developments you will list under the "Development(s)" heading. The totals will automatically calculate using the individual development billing rates entered in the table at the bottom of the page.
3. Enter the Mileage Reimbursement Rate for Travel. This must be entered using a decimal for cents (Example: **.25**)
4. Totals will automatically calculate.
5. When you have completed a separate form for each central office employee, mail all forms to Kathy Feldpausch at :
Michigan State Housing Development Authority
735 E. Michigan Avenue
P.O. Box 30044
Lansing, MI 48909

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